

VISA U.S.A. INC.
BOARD OF DIRECTORS MEETING

Vancouver, Canada
May 2-3, 1988

EXECUTIVE SUMMARY

P-0725

Visa and MasterCard Cooperative Efforts

Plus/Cirrus Marks Coexistence on ATMs

In the past, both Plus and Cirrus have prohibited coexistence of their marks on an ATM. At their meeting in January 1988, the Plus System Inc. Board of Directors approved a resolution that would allow coexistence of marks on ATMs, provided that the Cirrus acquirers adhered to the Plus System security standards. In reaching their decision, the Plus Board considered that with the ban on coexistence at ATMs, any move towards total ATM sharing could only be met by the creation of a third mark; that acceptance of each other's mark would result in lowered transaction costs; that the banking industry could offer a larger number of ATMs than currently offered by some non-banking competitors; and that the ability of a bank holding company to develop a corporate-wide ATM strategy is adversely affected by the duality ban.

As reported to the Visa U.S.A. Executive/Planning Committee in February, Visa management supports the Plus Board's policy.

Since that time, discussions have been held with MasterCard regarding the removal of their prohibition, both by Visa U.S.A. and Plus System management. MasterCard appeared to be firm in their resolve to maintain their ban on coexistence, despite the strong opposition that management of Plus and Visa have heard from the vast majority of financial institutions. However, recent events have indicated that they may be about to change their position.

Chip Card Report

In 1985 Visa conducted a study of the viability of the Integrated Circuit Card (ICC) as a replacement for the conventional card. The study was published in October 1985 and reported the following conclusions:

1. The technology is only viable if new income-generating services can be associated with it.
2. No justification for a mandate exists.

3. The card may have application in local markets. Therefore justification exists for Visa to develop a standard for an ICC option.
4. The technology may become viable in the future. Therefore international standards activities should be supported.

A Visa Integrated Circuit Card specification was published in 1987 and presented to all standards committees working on the ICC. Visa staff has actively participated in all of these committees as well as in INTAMIC, an organization formed in Europe to present banks' views to Standards Organizations.

In April 1987, MasterCard presented a proposal which included a mandate for IC reading terminals in all merchant locations. Visa, consistent with the previous findings, found the proposal not to be viable.

To obtain an impartial opinion, a joint study was commissioned to the consulting firm of Booz, Allen & Hamilton, Inc. The study included economic analysis as well as interviews with Member banks. The final findings were presented to an Ad Hoc Advisors Group in February 1988 and confirmed Visa's position. A very major investment is required to equip cardholders and merchants with cards and reading equipment, and there is essentially no payback even after ten years. These conclusions resulted from data and assumptions agreed upon by the two associations.

MasterCard initially voiced strong opposition to the study findings. However in a recent letter (March 18), they proposed that joint study of the issue be discontinued.

While Visa International will continue to monitor developments and participate in standards activities and a Visa Integrated Circuit Card Specification is available to Members should they wish to perform experiments with this technology, no additional activities are planned or foreseen at this time for the U.S. Region.

Entree

Since the last report to the Board in September 1987, Entree commitments have increased to 140 financial institutions and debit networks. The Entree Management Committee, composed of 18 banks and 8 debit networks, has been formed, and various sub-groups have formulated detailed revisions to the Entree Operating Regulations and developed a marketing plan for the program.

Additionally, in October 1987, the Executive/Planning Committee met with a committee from the MasterCard board to receive a report from Booz, Allen & Hamilton on whether the Entree mark should be

allowed to coexist on a debit card with the Visa or MasterCard marks. The report unequivocally endorsed the Visa Board's position that this should be permitted. Notwithstanding this recommendation, the MasterCard directors voted to reject the report. This placed the coexistence issue into a one-year test mode.

However, in a recent letter, MasterCard has reversed its position and is now prepared to allow logo coexistence for any issuer as proposed by the Visa Board from the outset.

A copy of the letter, as well as the proposed changes to the Operating Rules and Regulations, is included in the Executive/Planning Committee Book.

Joint Operating Regulations

Visa and MasterCard staff met in February to review processing differences which have arisen since alignment of the Regulations with respect to chargebacks, security and authorization occurred in April 1987. Following this, the differences and resulting recommendations were reviewed with the appropriate Advisory groups. In order to continue making progress in this area, Visa proposed that the majority of the necessary changes be made in the Visa U.S.A. Operating Regulations.

Department Store Sign-up Program

In April 1986, Visa and MasterCard launched a joint program to help Members sign top department store chains which did not accept bankcards. The program, a cooperative advertising effort, was designed to incent major retailers in "holdout" chains to accept bankcards and ensure that the introduction of bankcard acceptance in major department store chains was communicated to cardholders and other consumers in an effective and consistent manner.

The department store support program was piloted in April 1986 with the sign-up of three divisions of Carter Hawley Hale--The Broadway, Emporium-Capwell and Weinstocks. After a successful pilot with this chain, the program was extended to a target list of the 29 largest remaining holdout chains. More recently, two additional chains were added to the target list. The targeted holdout chains accounted for over \$15 billion in annual sales.

As a result of this program, 14 of the 29 targeted chains are now accepting bankcards and have received support funds from the bankcard associations. With the addition of other non-targeted chains, bankcard acceptance among the top 100 chains now has increased to 81 stores. Over 85% of sales volume of the top 100 department stores is initiated at stores that now accept Visa and MasterCard, as opposed to about 50% when the program started. In

contrast, 83 of the top 100 department stores now accept American Express.

A status report regarding the various cooperative activities will be presented at the meeting.

Gerald Hawke

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